



NHS Fife

External Audit Annual Plan

Year ended 31 March 2024

December 2023



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Introduction

Purpose

This audit plan highlights the key elements of our proposed audit strategy and provides an overview of the planned scope and timing of the statutory external audit of NHS Fife for the year ended 31 March 2024 for those charged with governance.

Our audit work will cover:

- the financial statements within the 2023/24 annual report and accounts
- the wider scope of public audit
- any other work requested by Audit Scotland.

Adding Value through the Audit

All of our clients demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the Board through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help the Board promote improved standards of governance, better management and decision making and more effective use of resources.

Feedback

If there are any elements of this audit plan to which you do not agree or you would like to discuss, please let us know as soon as possible.

Any comments you may have on the service we provide, the quality of our work, and our reports would be greatly appreciated at any time. Comments can be reported directly to any member of your audit team.

This plan has been prepared for the sole use of those charged with governance and management and should not be relied upon by third parties. No responsibility is assumed by Azets Audit Services to third parties.

Openness and transparency

This report will be published on Audit Scotland's website <http://www.audit-scotland.gov.uk/>

Audit scope and general approach

Responsibilities of the auditor and the Board

The [Code of Audit Practice](#) outlines the responsibilities of external auditors appointed by the Auditor General for Scotland and it is a condition of our appointment that we follow it.

Auditor responsibilities are derived from statute, International Standards on Auditing (UK) and the Ethical Standard for auditors, other professional requirements and best practice, the Code of Audit Practice and guidance from Audit Scotland.

The Board has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing a set of annual report and accounts that are in accordance with proper accounting practices. The Board is also responsible for complying with legislation and putting arrangements in place for governance and propriety that enable it to successfully deliver its objectives.

[Appendix 3](#) provides further details of our respective responsibilities.

Risk-based audit approach

We follow a risk-based approach to the audit that reflects our overall assessment of the relevant risks that apply to the Board. This ensures that our audit focuses on the areas of highest risk. Our audit planning is based on:

Discussions with senior officers	Our understanding of the health sector, its key priorities and risks	Attending & observing the Audit & Risk Committee
Guidance from Audit Scotland	Discussions with Audit Scotland and public sector auditors	Discussions with internal audit and review of plans and reports
Review of the Board's corporate strategies and plans	Review of the Board's corporate risk register	Consideration of the work of other inspection bodies

Planning is a continuous process and our audit plans are updated during the course of our audit to take account of developments as they arise.

Communication with those charged with governance

Auditing standards require us to make certain communications throughout the audit to those charged with governance. These communications will be through the Audit and Risk Committee.

Partnership working

We coordinate our work with Audit Scotland, internal audit, other external auditors and relevant scrutiny bodies, recognising the increasing integration of service delivery and partnership working within the public sector.

Our Audit Scotland appointments include Fife Integration Joint Board and Fife Council. Where practicable and appropriate we will share knowledge between our teams to generate efficiencies in the delivery of our audits.

Audit Scotland

Although we are independent of Audit Scotland and are responsible for forming our own views and opinions, we do work closely with Audit Scotland throughout the audit. This helps identify common priorities and risks, treat issues consistently across the sector, and improve audit quality and efficiency. We share information about identified risks, good practices and barriers to improvement so that lessons to be learnt and knowledge of what works can be disseminated to all relevant bodies.

Audit Scotland undertakes national performance audits on issues affecting the public sector. We may review the Board's arrangements for taking action on any issues reported in the national performance reports which have a local impact. We also consider the extent to which the Board uses the national performance reports as a means to help improve performance at the local level.

During the year we may also be required to provide information to Audit Scotland to support the national performance audits.

Shared systems and functions

Audit Scotland encourages auditors to seek efficiencies and avoid duplication of effort by liaising closely with other external auditors, agreeing an appropriate division of work and sharing audit findings. Assurance reports are prepared by service auditors in the health sector covering the national systems / arrangements. We consider the audit assurance reports when evaluating the Board's systems.

Delivering the audit

Hybrid audit approach

We adopt a hybrid approach to our audit which combines on-site visits with remote working; learning from the better practices developed during the pandemic.

All of our people have the equipment, technology and systems to allow them to work remotely or on-site, including secure access to all necessary data and information.

All of our staff are fully contactable by email, phone call and video-conferencing.

Meetings can be held over Skype, Microsoft Teams or by telephone.

We employ greater use of technology to examine evidence, but only where we have assessed both the sufficiency and appropriateness of the audit evidence produced.

Secure sharing of information

We use a cloud-based file sharing service that enables users to easily and securely exchange documents and provides a single repository for audit evidence.

Regular contact

During the 'fieldwork' phases of our audit, we will arrange regular catch-ups with key personnel to discuss the progress of the audit. The frequency of these meetings will be discussed and agreed with management.

Signing annual accounts

Audit Scotland recommends the electronic signing of annual accounts and uses a system called DocuSign.

Electronic signatures simplify the process of signing the accounts and are acceptable for laying in Parliament. Accounts can be signed using any device from any location. There is no longer a need for duplicate copies to be signed, thus reducing the risk of missing a signature and all signatories have immediate access to a high-quality PDF version of the accounts.

Approach to audit of the financial statements

Our objective when performing an audit is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement and to issue an independent auditor's report that includes our auditor's opinion.

As part of our risk-based audit approach, we will:

- Perform risk assessment procedures including updating our understanding of the Board, including its environment, the financial reporting framework and its system of internal control;
- Review the design and implementation of key internal controls;

- Identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement level and the assertion level for classes of transaction, account balances and disclosures;
- Design and perform audit procedures responsive to those risks, to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion; and
- Exercise professional judgment and maintain professional scepticism throughout the audit recognising that circumstances may exist that cause the financial statements to be materially misstated.

Materiality

“Reasonable assurance”, referred to above, is a high level of assurance, but is not a guarantee that an audit will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. We include an explanation in the auditor’s report of the extent to which the audit was capable of detecting irregularities, including fraud, and respective responsibilities for prevention and detection of fraud.

We apply the concept of materiality in planning and performing the audit, and in evaluating the effect of misstatements within the financial statements identified during the audit.

Judgments about materiality are made in the light of surrounding circumstances and are affected by our perception of the financial information needs of users of the financial statements, and by the size or nature of a misstatement, or a combination of both. The basis for our assessment of materiality for the year is set out in [Appendix 1](#).

Any identified errors greater than £0.3million will be recorded and discussed with you and, if not adjusted, confirmed as immaterial as part of your letter of representation to us.

Accounting systems and internal controls

We will follow a substantive testing approach to gain audit assurance rather than relying on tests of controls. As part of our work, we consider certain internal controls relevant to the preparation of the annual accounts such that we are able to design appropriate audit procedures. However, this work will not cover all internal controls and is not designed for the purpose of expressing an opinion on the effectiveness of internal controls. If we identify significant deficiencies in controls, we will report these to you in writing.

Specialised skill or knowledge required to complete the audit

Our audit team will consult internally with our Technology Risk team in:

- Assessing the information technology general controls (ITGC)
- Reviewing the service auditor report findings and following up on any recommendations.

Going Concern

In most public sector entities (including health boards), the financial reporting framework envisages that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

For many public sector entities, the financial sustainability of the entity is more likely to be of significant public interest than the application of the going concern basis. Our wider scope audit work considers the financial sustainability of the Board.

Prevention and detection of fraud or error

In order to discharge our responsibilities regarding fraud and irregularity we require any fraud or irregularity issues to be reported to us as they arise. In particular we require to be notified of all frauds which:

- Involve the misappropriation of theft of assets or cash which are facilitated by weaknesses in internal control and;
- Are over £5,000.

We also require a historic record of instances of fraud or irregularity to be maintained and a summary to be made available to us after each year end.

National Fraud Initiative

The National Fraud Initiative (NFI) in Scotland is a biennial counter fraud exercise led by Audit Scotland working together with a range of Scottish public bodies, external auditors and overseen by the Cabinet Office for the UK as a whole. The most recent NFI exercise commenced in 2022 and most matches should have been investigated by 30 September 2023. As part of our 2023/24 audit, we will monitor the Board's participation and progress in the NFI.

Anti-money laundering

We require the Board to notify us on a timely basis of any suspected instances of money laundering so that we can inform Audit Scotland who will determine the necessary course of action.

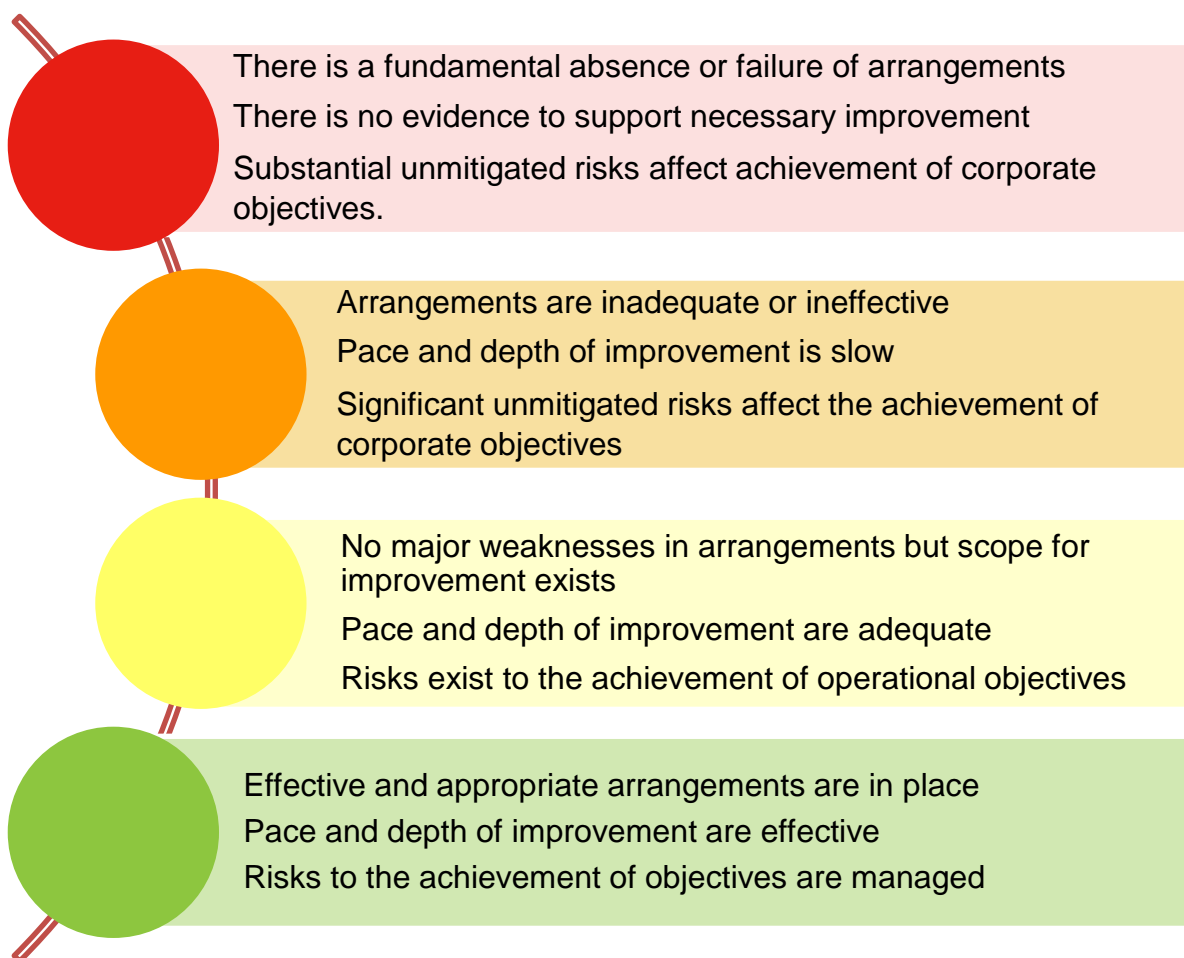
Reporting our findings

At the conclusion of the audit we will issue:

- an independent auditor's report setting out our formal audit opinions within the annual report and accounts, and
- an annual audit report describing our audit findings, conclusions on key audit risks, judgements on the pace and depth of improvement on the wider scope areas, and any recommendations.

Definitions

We will use the following gradings to provide an overall assessment of the arrangements in place as they relate to the wider scope areas. The text provides a guide to the key criteria we use in the assessment, although not all of the criteria may exist in every case.



Financial statements - significant audit risks

Significant risks are risks that require special audit consideration and include identified risks of material misstatement that:

- Our risk assessment procedures have identified as being close to the upper range of the spectrum of inherent risk due to their nature and a combination of the likelihood and potential magnitude of misstatement; or
- Are required to be treated as significant risks due to requirements of ISAs (UK), for example in relation to management override of internal controls.

Significant risks at the financial statement level

The table below summarises significant risks of material misstatement identified at the financial statement level. These risks are considered to have a pervasive impact on the financial statements as a whole and potentially affect many assertions for classes of transaction, account balances and disclosures.

Management override of controls	Audit approach
<p>Auditing Standards require auditors to treat management override of controls as a significant risk on all audits. This is because management is in a unique position to perpetrate fraud by manipulating accounting records and overriding controls that otherwise appear to be operating effectively.</p> <p>Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk.</p> <p>Specific areas of potential risk include manual journals, management estimates and judgements and one-off</p>	<p>Procedures performed to mitigate risks of material misstatement in this area will include:</p> <ul style="list-style-type: none"> • Documenting our understanding of the journals posting process and evaluating the design effectiveness of management controls over journals. • Analysing the journals listing and determining the criteria for selecting high risk and/or unusual journals. • Testing high risk and/or unusual journals posted during the year and after the draft accounts stage back to supporting documentation for appropriateness, corroboration and to ensure approval has been undertaken in line with the Board’s journals policy.

Management override of controls	Audit approach
<p>transactions outside the ordinary course of the business.</p> <p>Risk of material misstatement: Very High</p>	<ul style="list-style-type: none"> • Gaining an understanding of the key accounting estimates and critical judgements made by management. We will challenge assumptions and consider for reasonableness and indicators of bias which could result in material misstatement due to fraud. • Evaluating the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks at the assertion level for classes of transaction, account balances and disclosures

Fraud in revenue recognition	Audit approach
<p>Material misstatement due to fraudulent financial reporting relating to revenue recognition is a presumed risk in ISA 240 (The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements).</p> <p>The presumption is that the Board could adopt accounting policies or recognise income in such a way as to lead to a material misstatement in the reported financial position.</p> <p>Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of income around the year end.</p> <p>In respect of Scottish Government funding, however, we do not consider the revenue recognition risk to be significant due to a lack of incentive and opportunity to manipulate revenue of this nature. The risk of fraud in relation to revenue recognition is however present in all other income streams.</p> <p>Inherent risk of material misstatement:</p> <p>Revenue (occurrence/completeness): High</p>	<p>We will perform the below procedures based on their value within the financial statements:</p> <ul style="list-style-type: none"> • Documenting our understanding of the Board’s systems for income to identify significant classes of transactions, account balances and disclosures with a risk of material misstatement in the financial statements. • Evaluating the design of the controls in the key accounting systems, where a risk of material misstatement was identified, by performing a walkthrough of the systems. • Obtained evidence that income is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year. • Substantively testing material income streams using analytical procedures and sample testing of transactions recognised for the year.

Fraud in non-pay expenditure	Audit approach
<p>As most public sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.</p> <p>Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of expenditure around the year end leading to a material misstatement in the reported financial position.</p> <p>Inherent risk of material misstatement:</p> <ul style="list-style-type: none"> • Non-pay expenditure (occurrence/completeness): High • Accruals (existence/completeness): High 	<p>We will perform the below procedures based on their value within the financial statements:</p> <ul style="list-style-type: none"> • Documenting our understanding of the Board’s systems for expenditure to identify significant classes of transactions, account balances and disclosures with a risk of material misstatement in the financial statements. • Evaluating the design of the controls in the key accounting systems, where a risk of material misstatement was identified, by performing a walkthrough of the systems. • Obtained evidence that expenditure is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year. • Substantively testing material expenditure streams using analytical procedures and sample testing of transactions recognised for the year. • Reviewing accruals around the year end to consider if there is any indication of understatement of balances held through consideration of accounting estimates.

Refinancing of commitments under PFI contracts	Audit approach
<p>The Board has two PFI contracts:</p> <p>1. Community Hospital and Health Centre in St Andrews. The contract is for a period of 30 years commencing 31 July 2009.</p> <p>2. Phase 3 of the Victoria Hospital site in Kirkcaldy. The contract is for a period of 30 years commencing 28 October 2011.</p> <p>These initiatives are recognised as non-current assets on the Board’s balance sheet with net book value as at 31 March 2023 of £27million and £189million respectively.</p> <p>The Board identified PFI hospitals, which are inflation linked as a key cost pressure affecting the Board in 2022/23. In January 2023, a proposal for the re-financing of PFIs was approved as part of the Financial Improvement and Sustainability Programme. The deal on the re-financing agreement is expected to close in November 2023.</p> <p>Due to the complexity of accounting and the high value of the transactions, there is a risk that the Board’s financial statements do not show the correct accounting entries and related commitments for the PFI refinancing, and that the unitary payments in relation to these facilities are not correctly accounted for.</p> <p>Inherent risk of material misstatement:</p> <ul style="list-style-type: none"> • PPP assets (valuation) : High • Lease liabilities (valuation): High • Expenditure (valuation): High 	<p>Procedures performed to mitigate risks of material misstatement in this area will include:</p> <ul style="list-style-type: none"> • Documenting our understanding of the structure of the Board’s re-financed PFI contracts, including the models, and how these are accounted for. • Documenting our understanding of the wider financial implications which the re-financing decision has on the Board. • Reviewing the Board’s calculation of unitary payments. • Reviewing the Board’s compliance with the FReM and NHS Manual for Accounts regarding PFI contract re-financing.

Valuation of land and buildings (key accounting estimate)	Audit approach
<p>NHS Fife held land and buildings with a net book value of £507million at 31 March 2023, with external valuations on a five-year rolling basis.</p> <p>There is a significant degree of subjectivity in the measurement and valuation of land and buildings. This subjectivity and the material nature of the Board's asset base represents an increased risk of misstatement in the financial statements.</p> <p>Inherent risk of material misstatement:</p> <p>Land & Buildings (valuation): Very High</p>	<p>Procedures performed to mitigate risks of material misstatement in this area will include:</p> <ul style="list-style-type: none"> • Evaluating management processes and assumptions for the calculation of the estimates, the instructions issued to the valuation experts and the scope of their work. • Evaluating the competence, capabilities and objectivity of the valuation expert. • Considering the basis on which the valuation is carried out and challenging the key assumptions applied. • Testing the information used by the valuer to ensure it is complete and consistent with our understanding. If there have been any specific changes to the assets in the year, we will ensure these have been communicated to the valuer. • Ensuring revaluations made during the year have been input correctly to the fixed asset register and the accounting treatment within the financial statements is correct.

IFRS 16 implementation for PPP- / PFI arrangements (key accounting estimate)	Audit approach
<p>The mandatory adoption of IFRS 16 for PPP/PFI arrangements was implemented for NHS bodies from 1 April 2023.</p> <p>Under the new approach, there is an expectation that NHS bodies recognise variable lease payments, which are dependent on an index/ discount rate being applied on both transition and subsequent measurement, with changes needing to be accounted for appropriately. Therefore, there is an increased risk to the organisation that the incorrect rate is used when determining the lease payment.</p> <p>There is also an increased risk in respect of completeness of liabilities identified by the organisation on transition from IAS17 to IFRS16.</p> <p>Inherent risk of material misstatement:</p> <p>Lease liabilities (valuation):High</p>	<p>Procedures performed to mitigate risks of material misstatement in this area will include:</p> <ul style="list-style-type: none"> • Reviewing the completeness and accuracy of the data collected by the Board and used as part of implementation of IFRS 16 for PPP/PFI arrangements. • Reviewing the appropriateness of the discount rate used in the calculation of the lease liability. • Reviewing the appropriateness of the remeasurement of the lease liability resulting from a change in an index/rate used to determine those payments. • Reperforming the calculation of the lease liability and right of use asset for PPP/PFI arrangements with aide from the NHS Bodies PFI Model. • Reviewing the accounting entries for both transition and subsequent measurement of the Board's PPP/ PFI arrangements to ensure they are in line with IFRS16 and the requirements of the Financial Reporting Manual (FReM), NHS Manual for Accounts and Scottish Government guidance. • Reviewing the accounting policy and related disclosures for IFRS 16 in line with the requirements of the Financial Reporting Manual (FReM), NHS Manual for Accounts and Scottish Government guidance.

Provisions – CNORIS (key accounting estimate)	Audit approach
<p>The Board’s financial statements include provision for legal obligations in respect of participation in CNORIS (Clinical Negligence and Other Risks Indemnity Scheme).</p> <p>There is a significant degree of subjectivity in the measurement and valuation of these provisions. This subjectivity represents an increased risk of misstatement in the financial statements.</p> <p>Inherent risk of material misstatement:</p> <p>Provisions (Valuation): High</p>	<p>Procedures performed to mitigate risks of material misstatement in this area will include:</p> <ul style="list-style-type: none"> • Reviewing management’s estimation for the provision and related disclosures. • Considering compliance with the requirements of the FrEM and NHS Manual for Accounts. • Considering the competence, capability and objectiveness of the management expert.

The wider scope of public audit

Introduction

The Code of Audit Practice frames a significant part of our responsibilities in terms of four wider scope audit areas:

- Financial sustainability
- Financial management
- Vision, leadership and governance
- Use of resources to improve outcomes.

Our audit approach to the wider scope audit areas

Appointed auditors are required to consider the wider scope areas when:

- identifying significant audit risks at the planning stage of the audit
- reaching conclusions on those risks
- making recommendations for improvement
- where appropriate, setting out conclusions on the audited body's performance.

When reporting on such arrangements, the Code of Practice requires us to structure our commentary under the four areas identified above. [Appendix 3](#) provides further detail on the definition, scope and audit considerations under each wider scope area.

Our planned audit work against these four areas is risk based and proportionate. Our initial assessment builds upon our understanding of the Board's key priorities and risks along with discussions with management and review of board and committee minutes and key strategy documents.

We have identified two significant risks in relation to financial sustainability and financial management as set out in the table below. At this stage, we have not identified any significant risks in relation to the other wider scope areas. Audit planning is a continuous process and we will report all identified significant risks, as they relate to the four wider scope areas, in our annual audit report.

Wider scope significant risks

Financial sustainability

The Board's medium term financial plan was approved by the Finance, Performance and Resources Committee and Board in March 2023.

The plan shows a cumulative financial gap, before mitigations, of £73.195million over the period 2023/24 to 2027/28. A breakeven position for 2023/24 and 2024/25 and a surplus from 2025/26 onwards is forecast; however, this is subject to the delivery in full of challenging cost improvement plans and receipt of brokerage in 2023/24 and 2024/25.

Work is currently ongoing to review planning assumptions to reflect the current financial environment which the Board operates in, as part of development of the 2024/25 budget and revised medium term financial plan.

NHS Fife continues to face major risks to achieving financial balance while responding to the unprecedented challenges of recovering from the COVID-19 pandemic. Due to risk and uncertainty in relation to funding levels, workforce-related cost pressures and delivery of cost improvement programmes, the board's ability to deliver services in a sustainable manner remains a significant challenge and risk.

Our audit response:

During our audit we will review whether the Board has appropriate arrangements in place to manage its future financial position. Our work will include an assessment of progress made in developing financially sustainable plans which reflect the medium and longer term impact of cost pressures and that continue to support the delivery of the Board's statutory functions and strategic objectives.

Financial management

Financial brokerage of £9.728million was required from the Scottish Government to allow NHS Fife to achieved its financial targets in 2022/23.

In March 2023, the Board approved the 2023/24 financial plan which showed a projected budget gap of £10.9million after an ambitious cost improvement plan totalling £15million.

The latest forecast (October 2023) projected a deficit of £22million, resulting from a high level of challenge associated with delivering the in-year savings target in full and an increasing level of spend on supplementary medical and nursing staff when compared to previous years. As at October 2023, only £5.608million of the £15million cost improvement plan had been delivered.

There is a continued risk that the 2023/24 financial target will not be achieved and a higher level of brokerage than outlined in the approved financial plan will be required to achieve financial balance.

Our audit response:

During our audit we will consider the Board's approach to identifying and responding to financial challenges that have occurred during the year.

In formulating our audit plan, we identified areas of possible significant risk in relation to vision, leadership and governance and use of resources to improve outcomes. Our audit approach will include reviewing and concluding on the following considerations to substantiate whether significant risks exist:

Vision, leadership and governance

- The progress made by the Board in implementing and delivering the Population Health and Wellbeing Strategy;
- Whether the Board can demonstrate that the governance arrangements in place are appropriate and operating effectively;
- Whether inductions and ongoing training arrangements for new board members support effective scrutiny and challenge;
- The transparency of decision-making, financial reporting and performance data and;
- Reasonableness and consistency of the governance statement in relation to other information gathered during our audit.

Use of resources to improve outcomes

- Whether the Board can evidence the achievement of value for money in the use of resources;
- How the Board demonstrates a focus on continuous improvement in the context of continuing and significant financial and operational challenge and;
- The Board's service recovery from the COVID-19 pandemic including pandemic related backlog challenges.

Audit team and timetable

Audit Team

Our audit team will be as follows:

Role	Name	Email
Engagement Lead	Chris Brown	Chris.Brown@azets.co.uk
Engagement Manager	Andrew Ferguson	Andrew.Ferguson@azets.co.uk
Auditor in Charge	Amy Hughes	Amy.Hughes@azets.co.uk

Timetable

Please find below confirmation of our proposed timetable for the audit as previously discussed with management:

Role	Name
Audit planning meeting	24 November 2023
Audit Committee to consider audit plan	13 December 2023
Interim audit	February 2024
Receipt of draft accounts and commencement audit fieldwork	May 2024
Audit Committee to consider accounts and audit report	20 June 2024
Board meeting to approve accounts for signing	20 June 2024
Deadline for submission of signed accounts to SG	30 June 2024

Our Requirements

The audit process is underpinned by effective project management to co-ordinate and apply our resources efficiently to meet your deadlines. It is essential that the

audit team and the Board's finance team work closely together to achieve the above timetable.

In order for us to be able to complete our work in line with the agreed fee and timetable, we require the following:

- Draft financial statements of a good quality by the deadlines you have agreed with us. These should be complete including all notes, the performance report and the accountability report;
- Good quality working papers at the same time as the draft financial statements. These will be discussed with you in advance to ensure clarity over our expectations;
- Ensuring staff are available and on site (as agreed) during the period of the audit;
- Prompt and adequate responses to audit queries.

Audit independence and objectivity

Auditor Independence

We are required to communicate on a timely basis all facts and matters that may have a bearing on our independence.

In particular, FRC’s Ethical Standard stipulates that where an auditor undertakes non audit work, appropriate safeguards must be applied to reduce or eliminate any threats to independence.

Azets has not been appointed to provide any non-audit services during the year. We confirm that we comply with FRC’s Ethical Standard. In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way. In particular there are and have been no relationships between Azets and the Board, its Board members and senior management that may reasonably be thought to bear on our objectivity and independence

We have considered our integrity, independence and objectivity in respect of audit services provided and we do not believe that there are any significant threats or matters which should be brought to your attention.

Other threats and safeguards

Other potential threats for which we have applied appropriate safeguards include:

Other threats to objectivity and independence	Safeguard
An Azets employee’s father is a senior employee at NHS Fife (and disclosed in the Remuneration Report).	We confirm that we have implemented internal safeguards to ensure this employee has no involvement in our audit work and that no members of staff working on the audit discuss any aspects of the audit with them.

Appendices



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Appendix 1: Materiality

Whilst our audit procedures are designed to identify misstatements which are material to our audit opinion, we also report to those charged with governance and management any uncorrected misstatements of lower value errors to the extent that our audit identifies these.

Under ISA (UK) 260 we are obliged to report uncorrected omissions or misstatements other than those which are ‘clearly trivial’ to those charged with governance. ISA (UK) 260 defines ‘clearly trivial’ as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

An omission or misstatement is regarded as material if it would reasonably influence the users of the financial statements. The assessment of what is material is a matter of professional judgement and is affected by our assessment of the risk profile of the Board and Group and the needs of the users.

When planning, we make judgements about the size of misstatements which we consider to be material, and which provide a basis for determining the nature and extent of our audit procedures. Materiality is revised as our audit progresses, should we become aware of any information that would have caused us to determine a different amount had we known about it during our planning.

Our assessment, at the planning stage, of materiality for the year ended 31 March 2024 was calculated as follows.

	Group £million	Board £million
Overall materiality for the financial statements	29.534	29.513
Performance materiality (75% of materiality)	22.151	22.134
Trivial threshold	0.300	0.300

Materiality	Our initial assessment is based on approximately 2% of gross revenue expenditure as disclosed in the 2022/23 audited annual report and accounts. We consider this to be the principal consideration for the users of the financial statements when assessing financial performance of the Group and Board.
Performance materiality	Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out. We perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater

	<p>level of testing on the areas deemed to be at significant risk of material misstatement.</p> <p>Performance materiality is set at a value less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed overall materiality.</p>
<p>Trivial misstatements</p>	<p>Trivial misstatements are matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.</p> <p>The lower of 5% of overall materiality for the Board and £0.300million.</p> <p>Individual errors above this threshold are communicated to those charged with governance.</p>

The Remuneration & Staff Report and Related Parties disclosures are material by nature.

In performing our audit, we will consider any errors which cause result in a movement between the relevant bandings on the disclosure table to be material.

For Related Party transactions, in line with the standards we will consider the significance of the transaction with regard to both NHS Fife and the Counter party, the smaller of which will drive materiality considerations on a transaction by transaction basis.

Appendix 2: Group audit scope and risk assessment

As Group auditor under ISA (UK) 600 we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Group audit scope

The Group consists of the following entities:

Component	Significant	Level of response required
NHS Fife	Yes	Comprehensive
Fife Integration Joint Board (IJB)	No	Analytical
Fife Health Board Endowment Fund (Fife Health Charity)	No	Analytical

Comprehensive - The component is of such significance to the group as a whole that an audit of the components financial statements is required for group reporting purposes.

Analytical - the component is not significant to the Group and audit risks can be addressed sufficiently by applying analytical procedures at the Group level.

Risks at the component-level

The risks identified at the Board are set out in this external audit plan. There are no other risks identified in any of the other components above in respect of the Group audit.

Appendix 3: Responsibilities of the Auditor and the Board

The Auditor General and Audit Scotland

The Auditor General for Scotland is a Crown appointment and independent of the Scottish Government and Parliament. The Auditor General is responsible for appointing independent auditors to audit the accounts of the Scottish Government and most Scottish public bodies, including NHS bodies, and reporting on their financial health and performance.

Audit Scotland is an independent statutory body that co-ordinates and supports the delivery of high-quality public sector audit in Scotland. Audit Scotland oversees the appointment and performance of auditors, provides technical support, delivers performance audit and Best Value work programmes and undertakes financial audits of public bodies.

Auditor responsibilities

Code of Audit Practice

The Code of Audit Practice (the [2021 Code](#)) describes the high-level, principles-based purpose and scope of public audit in Scotland.

The Code of Audit Practice outlines the responsibilities of external auditors appointed by the Auditor General and it is a condition of our appointment that we follow it.

Our responsibilities

Auditor responsibilities are derived from the Code, statute, International Standards on Auditing (UK) and the Ethical Standard for auditors, other professional requirements and best practice, and guidance from Audit Scotland.

We are responsible for the audit of the accounts and the wider-scope responsibilities explained below. We act independently in carrying out our role and in exercising professional judgement. We report to the Board and others, including Audit Scotland, on the results of our audit work.

Weaknesses or risks, including fraud and other irregularities, identified by auditors, are only those which come to our attention during our normal audit work in accordance with the Code and may not be all that exist.

Wider scope audit work

Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector.

The wider scope audit specified by the Code broadens the audit of the accounts to include additional aspects or risks in areas of financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes.

Financial management



Financial management means having sound budgetary processes. Audited bodies require to understand the financial environment and whether their internal controls are operating effectively.

Auditor considerations

Auditors consider whether the body has effective arrangements to secure sound financial management. This includes the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error and other irregularities.

Financial sustainability



Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Auditor considerations

Auditors consider the extent to which audited bodies show regard to financial sustainability. They look ahead to the medium term (two to five years) and longer term (over five years) to consider whether the body is planning effectively so it can continue to deliver services.

Vision, leadership and governance

Audited bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.



Auditor considerations

Auditors consider the clarity of plans to implement the vision, strategy and priorities adopted by the leaders of the audited body. Auditors also consider the effectiveness of governance arrangements for delivery, including openness and transparency of decision-making; robustness of scrutiny and shared working arrangements; and reporting of decisions and outcomes, and financial and performance information.

Use of resources to improve outcomes

Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency and effectiveness through the use of financial and other resources, and reporting performance against outcomes.



Auditor considerations

Auditors consider the clarity of arrangements in place to ensure that resources are deployed to improve strategic outcomes, meet the needs of service users taking account of inequalities, and deliver continuous improvement in priority services.

Best Value

[Ministerial guidance to Accountable Officers for public bodies](#) sets out their duty to ensure that arrangements are in place to secure Best Value in public services. Through our wider scope audit work, we consider the arrangements put in place by the Accountable Officer to meet these Best Value obligations.

Audit quality

The Auditor General and the Accounts Commission require assurance on the quality of public audit in Scotland through comprehensive audit quality arrangements that apply to all audit work and providers. These arrangements recognise the importance



of audit quality to the Auditor General and the Accounts Commission and provide regular reporting on audit quality and performance.

Audit Scotland maintains and delivers an [Audit Quality Framework](#)

The most recent audit quality report can be found at [Quality of public audit in Scotland: Annual report 2022/23 | Audit Scotland \(audit-scotland.gov.uk\)](#)

Board responsibilities

The Board has primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enables it to successfully deliver its objectives. The features of proper financial stewardship include the following:

Area	Board responsibilities
Corporate governance	<p>The Board is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Those charged with governance should be involved in monitoring these arrangements.</p>
Financial statements and related reports	<p>The Board has responsibility for:</p> <ul style="list-style-type: none"> • preparing financial statements which give a true and fair view of the financial position and its expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation; • maintaining accounting records and working papers that have been prepared to an acceptable professional standard and support the balances and transactions in its financial statements and related disclosures; • ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority; and • preparing and publishing, along with the financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report in accordance with prescribed requirements. <p>Management commentaries should be fair, balanced and understandable. Management is responsible, with the oversight of those charged with governance, for communicating relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework. The relevant information should be communicated clearly and concisely.</p>

Area	Board responsibilities
	<p>The Board is responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of its objectives and safeguard and secure value for money from the public funds at its disposal. The Board is also responsible for establishing effective and appropriate internal audit and risk-management functions.</p>
<p>Standards of conduct for prevention and detection of fraud and error</p>	<p>The Board is responsible for establishing arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.</p>
<p>Financial position</p>	<p>The Board is responsible for putting in place proper arrangements to ensure the financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> • Such financial monitoring and reporting arrangements as may be specified; • Compliance with statutory financial requirements and achievement of financial targets; • Balances and reserves, including strategies about levels and their future use; • Plans to deal with uncertainty in the medium and long term; and • The impact of planned future policies and foreseeable developments on the financial position.
<p>Best value</p>	<p>The Scottish Public Finance Manual sets out that accountable officers appointed by the Principal Accountable Officer for the Scottish Administration have a specific responsibility to ensure that arrangements have been made to secure Best Value. Accountable Officers are required to ensure accountability and transparency through effective performance reporting for both internal and external stakeholders.</p>



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